

basic service to customers within the GSA is \$100 per month. If a customer's income is in excess of \$100,000 per year, then \$100 may be both a reasonable price for basic service and also an affordable rate for that customer. However, if the customer's income is only \$20,000 per year, then, even though the reasonable price for basic service remains \$100, it probably is no longer an affordable rate. In short, affordability depends on the capacity of people to purchase the service, while reasonableness has a lot more to do with the actual cost of providing it.

Need is a foundational tenant of a subsidy program, particularly one linked to "affordability;" geography is not. The DCA urges the FCC to carefully craft the high-cost area subsidy fund so that it is focused on those who, without the subsidy, probably could not afford the services. There is no basis on which the government could justify supporting the subsidization of telephone service to a movie star's beach house, a wealthy business executive's ranch, or the separate telephone line for the 16-year-old of affluent parents living in a secluded community.

The DCA is concerned that competition for residential customers is likely to develop at a much slower pace than competition for business customers. The DCA firmly believes that geographically averaged rates will be a strong disincentive to competition. While that result might be mitigated somewhat by reliance on a high-cost area subsidy, the DCA believes that such reliance is undesirable, from both an economic and a moral perspective. So long as the regulatory scheme for a unfocused subsidy exists, the economic forces of a competitive marketplace will not fully and freely respond to the market.

The DCA believes that properly phased-in geographically deaveraged residential rates will be perhaps the most potent incentive for competitors to enter residential markets which

previously were not cost-effective to serve. The competing local exchange carriers' entry into residential markets should put pressure on all providers to reduce their rates to the most cost-effective levels, and to apply new technologies in order to do so. Thus, geographically deaveraged residential rates should increase competition and incent innovation.

The DCA urges the FCC to focus the high-cost area subsidy on those customers who truly have an economic need for the subsidy, and to focus its regulation on providing incentives for reduced reliance on subsidy programs through competitive marketplace responses. The ultimate goal of the FCC, consistent with a competitive marketplace, should be elimination of the high-cost area subsidy -- a result which will occur only if providers have sufficient incentives to compete for profits, rather than rely on subsidies.

The DCA recognizes that immediate, full geographic rate deaveraging for the more high-cost rural areas probably would result in rate shock, and believes that geographically deaveraged rates should be phased-in over a period of time in order to avoid that unacceptable result. The DCA also recognizes that a geographic high-cost subsidy may be necessary for some period of time for a small minority of telecommunications customers. However, as competition develops and drives down prices, and as rates are allowed to rise to the level of the cost of providing service, the amount of the subsidy and the number of eligible customers should become quite small and, hopefully, the subsidy eventually will be eliminated.

### **C. Subsidies Must be "Explicit."**

To the extent that universal service subsidies are necessary and justified by reasoned principles, Section 254(e) mandates that they be "explicit." The Joint Conference Statement confirms that "[t]o the extent possible, the conferees intend that any support mechanisms continued or created under new section 254 should be explicit, rather than implicit as many

support mechanisms are today" (Joint Conference Statement, p. 16.), and that it is "the conferees' intent that all universal service support should be clearly identified (Id., at p. 17)."

The DCA believes this mandates both that the subsidy's payor should be aware of the amount the payor is paying to support the subsidy, and that the subsidy's recipient should be aware of the amount of subsidy the recipient is receiving. It is important for customers to have that information because people cannot judge whether the subsidy is cost-effective, or whether the public policy underlying the subsidy is sufficiently important to justify the cost, if they cannot quantify that cost. To the extent that society decides that the subsidy is not cost-effective, it can develop new, creative ways to respond to the public policy underlying the subsidy.

#### **D. Serving Schools, Libraries, and Health Care Providers.**

An important aspect of assuring that the advent of competition in telecommunications does not result in a society of information "have nots" is assuring that new information technologies are available in America's schools and libraries. That will help ensure that every student, and the public at large, have the opportunity to obtain the training essential to participate in the new Information Age.

Perhaps the most beneficial action the FCC can take to assist in the availability and deployment of advanced telecommunications and information services to schools, libraries and health care providers -- to all of society -- is to provide incentives for the telecommunications market to deploy a fiber optic, broadband network platform. A broadband platform will be essential for deployment of many new and yet-to-be-developed technologies that schools will need in order to train our children for productive employment.

Once a broadband platform is in place, the DCA believes that the market can and will respond to provide schools, libraries and health care providers with many of the services they will need, without the additional intervention of regulation. We believe that the competitive market has an enormous potential to deliver these to the public at large, as witnessed by its success in the consumer electronics market, which is serving the entire world, and persons of all income levels, abundantly and well. Only where telecommunications and information services providers fail to offer adequate services -- where the competitive marketplace fails to operate as it should -- should the government interject itself into the process to require provision of services. Even then, it should be aware that its efforts will be crude, and somewhat unresponsive to need, at best.

The DCA believes that adding new telecommunications and information technologies to the definition of the subsidized basic service could prove wasteful and unaffordably expensive to the paying customers and society. Yet, there is justification and wide-spread support for a social policy which encourages low-income consumers to gain familiarity with and use those new technologies. One way to meet this challenge may be to provide those new technologies to schools and libraries at reduced rates, allow consumers to have access to those services for a modest fee which covers the cost of providing them, and possibly provide low-income households with lifeline-rate vouchers that would allow them to obtain access at reduced rates.

In the past few years, California has critically examined these issues through bodies such as the Governor's Council on Information Technology and the SB 600 Task Force. California is in the process of implementing recommendations made by those bodies. The needs of citizens will vary from region to region, even within a state. The states are better

equipped to address the different needs of their citizens on a more focused basis than the federal government could do. Therefore, the DCA believes that these types of policies decisions should be made at the state, rather than the federal, level, insofar as possible.

#### **E. Special Services for Low-Income Customers.**

Paragraphs 50 through 58 of the NPRM discuss what services should be supported through the universal service subsidy for low-income customers. The FCC's suggestions include: (1) toll limitation and toll restriction services; (2) reduced service deposit; and, (3) services other than conventional residential services for those low-income individuals who do not have access to residential service, such as seasonal workers and homeless persons.

The DCA believes that toll limitation services, toll restriction services, and reduced service deposit charges are services which are beneficial to such consumers. The DCA also believes that one possible means to address the needs of those who do not have access to residential service may be to make available to those customers a universal service voucher which they could use to purchase services such as voice mail or pre-paid telephone cards.

However, the DCA also believes that there may be an effective demand for some or all of those services without a subsidized rate, if the services are properly designed and promoted. To the extent possible, the competitive marketplace should be allowed to provide those services.

The best solutions for these types of problems, and the need for these types of services, may vary from state to state. If the competitive marketplace does not respond sufficiently, then state regulators should step in to consider the least intrusive ways to incent the competitive market to provide those services.

## V. CONCLUSION.

There are several guiding principles which the DCA believes should be applied when interpreting and implementing the Act. The Act should be interpreted and implemented in a manner which carries out the policy and intent of Congress in enacting it. Congress has mandated that the FCC interpret the Act in a manner which promotes competition, encourages innovation, and reduces regulation to the greatest possible extent. The DCA believes that the FCC should delegate to the states the interpretation and implementation of the Act as it relates to intrastate and local exchange issues.

There is a public policy basis for some form of universal service subsidy program. Applying the principles identified by the DCA means that the subsidy program should be efficiently designed to carry out the policies which justify it. The FCC should avoid financing universal service by overpricing some telecommunications services. Universal services should be targeted to those in economic need who otherwise could not afford telecommunications services. To the greatest extent possible, the marketplace should be allowed to operate so as to identify the appropriate level of universal service subsidy needed.

The DCA believes that application of the principles it has identified above are especially important to several key provisions of the Act. Applying those principles, the Act's requirement that rates in rural areas be reasonably comparable to those in urban areas means that the rural area rates should reflect any increased cost of providing services to those areas. Similarly, the Act's requirement that rates be just, reasonable and affordable, also means that rates in rural areas should reflect any increased cost of providing service to those areas. However, as to those few persons who truly cannot afford the cost to provide service, including those in rural areas where the cost to provide service may be greater than in urban

areas, the rate is not an "affordable" rate, and a universal subsidy may be appropriate in those cases. The Act's requirement that subsidies should be explicit means that consumers are aware of (1) the amount they pay to support the subsidy, and (2) the amount of subsidy they receive.


The DCA believes that perhaps the most beneficial action the FCC can take to assist in making advanced telecommunications and information technologies available in schools, libraries and health care facilities is to provide incentives for the telecommunications market to deploy a fiber optic, broadband network platform, and let the market take care of the rest.

The DCA supports the concept of innovative solutions to the difficulties of low-income consumers in obtaining telecommunications services. However, it believes that the decisions about which services to provide should be made first by the market, and to the extent the market does not adequately respond, by state regulators.

DATED: April 10, 1996

Respectfully submitted,

  
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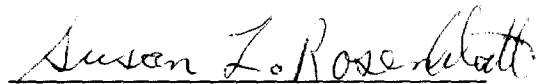
  
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**Certificate of Service**

I hereby certify that on April 11, 1995, I served a copy of the "Comments of the California Department of Consumer Affairs on the Federal Communications Commission's Notice of Proposed Rule Making and Order Establishing Federal-State Joint Board on Universal Service" on all parties on the service list for CC Docket No. 96-45 by mailing a properly addressed copy by first-class mail with postage prepaid to each party named in the official service list, a copy of which is attached.

Executed on April 11, 1995, at Sacramento, California.

A handwritten signature in cursive script, reading "Susan L. Rosenblatt", written over a horizontal line.

Susan L. Rosenblatt  
Sr. Legal Typist  
Department of Consumer Affairs